

THE CHARACTER AND EFFECT OF FEDERAL RAILROAD REGULATION AS ESTABLISHED BY THE TRANSPORTATION ACT OF 1920.

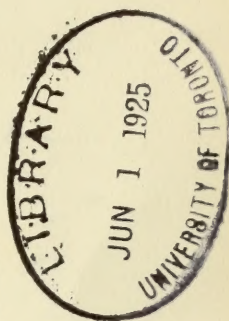
Address delivered by Walker D. ^{OWNEY}Hines to The City Club
of Toledo, Saturday, March 24, 1923.

The present year, 1923, gives promise of being the first approximately normal railroad year since the War began in 1914, so that it seems a particularly appropriate time to try to view in its normal aspects the scope and effect of existing railroad legislation.

The year 1915 was a bad year on account of the business derangement growing out of the first stages of the World War. The years 1916 and 1917 profited by the artificial stimulus which business received from war conditions, but in both years the railroads suffered severely from congestion of traffic, and in 1917 began to be very greatly embarrassed by the serious increases in prices for materials, supplies and equipment, the increasing discontent of employees because of inadequate wages, and the consequent highly expensive labor turnover, due to the loss of employees to the war industries.

In 1918 the railroads were run to win the War and everything was subordinated to that end. 1919 saw the first stages of the after-the-War readjustment, some of the phases of this readjustment being the heavy business slump in the first part of the year, the steel strike in September, and the nation-wide soft coal strike in November and December.

In 1920 the situation was greatly complicated by the rapid rise in prices and in the cost of living and by the consequent heavy increase in wages, and by a very serious and widespread outlaw strike which greatly hampered the handling of the enormous business arising from a feverish and temporary post-war prosperity. 1921 was characterized by a prolonged business slump and by very high operating costs due particularly to the high wages, and



1922 was divided between the continuance of the business slump in the first part of the year and a very heavy business in the latter part of the year and was greatly complicated by the nation-wide strikes of both the soft coal miners and the hard coal miners and by the strike of the railroad shop employees.

The railroads have emerged from this exceedingly trying period with rates very high and unsatisfactory to the public, and yet with the railroads earning less than a fair return, and with a recent record of unsatisfactory service due largely to the extraordinary difficulties incident to the dislocation of the coal industry by the coal strikes and of railroad operation by the shop strike.

All these troubles have come close home to the public, and the public, as well as various railroad people, have shown the usual disposition to jump at conclusions without sufficient examination of the facts. This same tendency was displayed during Federal control. At that time all unsatisfactory conditions incident to railroad operation were charged to the fact that the Government was in control. Since that time the even more unsatisfactory conditions incident to railroad operation have been generally charged to the fact that railroad legislation was wrong. But these charges both during Federal control and since Federal control have been largely mistaken because they have ignored the great fact that the War created fundamental difficulties which could not instantly be successfully overcome. Practically nothing else in the world has functioned satisfactorily, and the fundamental cause has been the disrupting influences of the War. Yet the public overlooks this in explaining the railroad situation and mistakenly attributes the difficulties of the railroads to errors in railroad regulation, and occasionally we hear also the lament, both from railroad and non-railroad sources, that railroad management no longer has any freedom of initiative and on that account cannot succeed.

I wish, therefore, to consider with you the question as to what is the real status of public regulation in this country, as to whether it makes rates too high or prevents reduc-

tion in costs, or deprives managers of initiative, and as to whether that regulation calls for a fundamental change at the present time. It will be convenient to look at this matter first in its relation to railroad rates, then in its relation to railroad labor, and finally in its relation to other railroad costs.

THE RATE PRINCIPLE IS THAT RATES SHALL SUFFICE TO COVER COST AND THERE CAN BE NO PERMANENT ALTERNATIVE EXCEPT GOVERNMENT SUBSIDY OR GOVERNMENT OPERATION.

The principal feature of railroad legislation at present is the Transportation Act of 1920, and its great principle as to rates is that that Act imposes upon the Interstate Commerce Commission the definite and affirmative duty to prescribe rates which shall be sufficient to give the railroads as a whole revenue which at least on a normal business will be calculated to pay operating costs and yield a fair return on the aggregate value of railroad property. There is an extensive impression that these provisions of the Transportation Act amount to a guaranty to the railroads, but this is not the case because any loss due to insufficient business or unforeseen costs falls on the railroad owners themselves. This is illustrated by the fact that not since September 1, 1920, when the rates made under the Transportation Act went into effect, have the railroads received what the Transportation Act regarded as a fair return. Nor is it true, as is frequently supposed, that the return which the railroads receive is to be estimated on the basis of their stocks and bonds. The estimate is to be based upon the value as fixed by the Interstate Commerce Commission, and in fixing this valuation the Commission is not required to be governed by railroad capitalization or by present high costs of railroad construction, but is free to look at the actual railroad properties themselves in the light of the cost of construction in the pre-war period. The rate of return is likewise to be fixed from time to time by the Commission.

The public, however, is disposed to the view that in any event the rate-making basis of the Transportation Act has produced rates which are very high and therefore the basis must be unsatisfactory. We must, however, face the facts and realize that the rates are high because the costs are high and unless some way can be found to cut down the costs, there is no way to escape high rates without bankrupting the railroads and seriously impairing railroad service unless the Government exercises the power of taxation to make up any deficit in the revenues yielded by the rates. Of course, if the Government makes up this deficit the public does not thereby escape the cost, but simply pays it through another form and a form perhaps even more burdensome upon general prosperity and that is through some form of taxation.

Clear thinking compels us to face the fact that we cannot successfully run away from the cost of railroad operation and that that cost must be paid in some manner. So long as that cost is to be paid through rates and not through Government subsidy or Government operation, then the rule of the Transportation Act is the fairest possible rule to apply. No proposal should be made to abandon that rule, without including some substituted method for covering the costs of railroad operation either through Government subsidy to the railroads under private management or through Government acquisition of the railroads. Until the public is ready for one of these alternative methods it ought to support wholeheartedly the rate-making rule of the Transportation Act, and ought to expect rates to come down only as railroad costs come down. Of course, even without adequate revenues the railroads would for a period struggle along in receiverships and otherwise, but this would prevent the raising of new capital absolutely necessary to provide the public additional cars and locomotives and other needed railroad facilities. There would thus result a progressive deterioration of railroad service which would force Government ownership or Government subsidy.

THE LABOR PRINCIPLE IS THAT WHEN MANAGEMENTS AND EMPLOYEES DISAGREE THERE MUST BE INQUIRY AND REPORT BY SOME PUBLIC AUTHORITY AS TO THE MERITS OF THE CONTROVERSY, AND AT LEAST THIS DEGREE OF INTERVENTION IS INEVITABLE.

As to railroad costs, one of the most important is the cost of labor. On this subject there has been a great deal of confusion of thought. There has been a disposition to assume that the Labor Board which was created by the Transportation Act has been responsible for the high labor cost, and that the labor costs could be greatly reduced by the simple process of abolishing the Labor Board. Added to this public confusion on the subject, there has been a widespread disposition on the part of railroad managements to feel that the Labor Board constitutes a serious interference with the freedom of railroad managements in dealing with labor, and hence there has been considerable insistence in railroad quarters that the Labor Board should be abolished. These elements of confusion make it highly desirable to analyze this labor situation with care. I wish to point out that there is bound to be a certain measure of public intervention in fixing railroad wages and that this will not be avoided by abolishing the Labor Board, but will simply call for some substituted method of public intervention, and then I wish to show that the principal limitation on the management in connection with the labor situation will continue to exist regardless of what form of public intervention there is. This is true because the principal limiting factor is that it is now well recognized that the employees are entitled to a voice in fixing their wages and working conditions and hence that these matters are not entirely within the control of the management but must be so handled as to secure broadly the concurrence of the employees themselves.

First, as to the extent of Government control of railroad wages: it is well to consider at the outset the underlying principle.

The most obvious public interest in the railroad labor

problem is to see that railroad service, which is indispensable to the public because in a large sense there is no alternative, shall be free from interruption. Hence the public wishes to see that questions between the carriers and their employees are so disposed of as to avert strikes.

One school of railroad thought has urged that the solution of the labor problem would be to prohibit strikes. Obviously, however, an essential part of such a program would be an authoritative public fixing of wages and working conditions. The prohibition of strikes would mean that railroad employees must work for the wages fixed for them. Theoretically, the individual employee would be free to quit work and seek other employment. But generally speaking, railroad employees cannot find other employment and when once wages are authoritatively fixed, the railroad employees must work for those wages. It cannot be successfully maintained that railroad employment is public and therefore employees cannot interrupt it and yet that their wages and working conditions may be fixed by a private agency. Hence any prohibition of strikes means inevitably that wages and working conditions shall be authoritatively fixed by the Government. So far, no such complete interference with the management and the employees has been attempted.

Another school of railroad thought prefers to avoid any prohibition of strikes, and to leave the matter of wages and working conditions to be negotiated between the managements and the employees. There is a great deal in favor of this plan. But if strikes are permissible, the public, nevertheless, wishes to avoid them, and some form of public intervention in the case of threatened strikes is bound to arise. For many years this intervention took the form of mediation and at times arbitration. These expedients failed to prevent strikes altogether, and at the time of the nation-wide movement, in 1916, of the train and engine men for the 8-hour basic day, the country was menaced with the threat of a nation-wide strike. The two alternatives which confronted the Government were, first, to insist that the parties should arbitrate, and, second, to

establish by law a compromise without arbitration. The latter was adopted, and led to a great deal of criticism. But if the former had been adopted, the railroad managements would nevertheless have been bound by the arbitration and the results would have been fixed by a power outside the managements.

Hence it is evident that the labor situation is in any event capable of taking a form where some outside power may fix the wages and working conditions, so that the management cannot hope absolutely to control that situation.

THE PUBLIC AUTHORITY CREATED BY THE ACT IS THE LABOR BOARD. ITS EMERGENCY DIFFICULTIES ARE ONLY NOW GIVING WAY TO OPPORTUNITY FOR NORMAL FUNCTIONING.

The practical question is as to the character and degree of the public intervention, bearing in mind that such intervention is bound to come where a serious clash is threatened. The labor provisions of the Transportation Act are new and experimental. Doubtless they will be improved with time. Meanwhile it is important to bear in mind that in principle the Labor Board is merely a fact finding tribunal to be resorted to when, and only when, the railroad management and the employees are unable to agree. The Board's findings are not binding upon either side, but are merely to inform public opinion.

It may be said that up to the present time the Labor Board's decisions have been largely compulsory in fact and that they have reported in favor of widespread increases in wages and in favor of a large degree of standardization of wages and working conditions. In justice to the Labor Board, it must be remembered that when it was created it had to deal with a situation of unparalleled difficulty. It did not create standardization of wages, but found that that condition had grown up during Federal control. It did not create the need for large increases in wages, but found that that was inevitable in view of

the high cost of living. It did not usurp any jurisdiction in dealing with these matters, but its jurisdiction grew out of the fact that the managements and the employees were wholly unable to agree and they joined in referring these difficult matters to the Labor Board for its decision. As matters become more normal, there should be less and less need for the reference of disputes to the Labor Board, and the present indications are that the managements and their employees are working these things out among themselves to a far greater extent, and the continued improvement in this direction will finally leave the Labor Board where the Transportation Act intended it to be and that is as the fact finding body to report on the occasional disputes which cannot be settled between the managements and the employees. It was only because of the extraordinary emergency existing in 1920 that the Labor Board, against its wishes, was forced into a situation where it had to deal, for a period of more than two years, with practically all the questions of wages and working conditions that arose throughout the entire country.

Not only has the Labor Board had to deal with all these disputes as to fixing wages and working conditions, but it has had an immense number of controversies arising out of questions of discipline and out of disputes as to the application of the rules as to working conditions. This situation has been due to the fact that so far the railroad managements and their employees have by no means fully worked out the plan for adjustment boards which the Transportation Act anticipated would be created throughout the country on some basis, either separate for the different railroads or for the railroads regionally, or possibly for the country as a whole. It was anticipated that these boards of adjustment would have expert representatives of the managements and the employees and would be able to handle the great mass of disputes about questions of discipline and interpretation of the rules, but the delay incident to the formation of these boards has put an enormous additional burden upon the Labor Board. It is reasonable to assume that as prog-

ress is made in developing these boards of adjustment the Labor Board's burdens in this respect will be substantially lightened and its ability promptly to dispose of the questions which necessarily come before it will be correspondingly increased.

I have no doubt that methods will be found of improving the character of public supervision of these labor problems and I imagine the Labor Board itself from time to time will have occasion to recommend improvements in the regulatory machinery. But it can be accepted that in some form public intervention will continue. It is largely a question whether it will be absolute fixing of wages and working conditions as an accompaniment of prohibition of strikes, or some fact finding tribunal to act in case of disagreement and inform public opinion but not control the parties. We should, however, dismiss the idea that we will ever get back to the position where there will be no public machinery for dealing with labor disputes which have such a vital relation to the continuity of railroad service.

Not only will the public continue to have some form of machinery to deal with these matters, but it is likely to continue to have a board of experts like the Labor Board. These labor questions are as complicated as any law questions which perplex our courts, and I believe the public must continue to provide a board of railroad labor experts which will by experience and constant study know what it is dealing with.

LIMITATION ON MANAGEMENT IN LABOR MATTERS IS DUE NOT TO THE LABOR BOARD BUT TO RECOGNITION OF THE GRADUALLY DEVELOPING AND NOW ESTABLISHED PRINCIPLE THAT EMPLOYEES ARE ENTITLED TO A VOICE AND THIS PRINCIPLE WILL CONTINUE REGARDLESS OF CHANGE IN LEGISLATIVE POLICY.

Second, as to the voice of the employees:

The discussion of the subject of railroad labor has centered largely upon the question of the Government having a voice in the control of labor matters, but the fact

is that to a very large extent the real problem arises because the employees have a voice in such matters, and much confusion of thought arises from failing to give due weight to this fact.

This participation of the employees has been a matter of evolution. Originally the railroad managements seemed to have unlimited freedom of action. They prescribed such wages and working conditions as they saw fit, and disciplined, discharged and promoted employees without recourse on the part of the employees. But this condition began to disintegrate long ago and to a large extent its disintegration was entirely apart from governmental intervention. Indeed, the great freedom of action on the part of railroad managements appeared to lead to the unionization of railroad labor instead of away from it. Long before the Government concerned itself about such matters, the train and engine men were organized on practically all the important railroads, and had a powerful voice in the fixing of their wages and working conditions.

Many suggestions have been made that if there are to be railroad labor organizations, the organizations on each railroad system should deal directly with the management on that system, and that there should not be nation-wide labor action. There are, no doubt, many reasons in favor of system negotiations in these matters, and there is nothing in the Transportation Act, or in the policy of the Labor Board, to interfere with such system negotiations. The degree of their success will be dependent upon the extent to which the management can establish such contact with its employees and such a condition of mutual confidence as to bring about the desired result. Certainly system negotiations to the exclusion of regional or nation-wide negotiation is not likely to be brought about by legislation, nor did that situation exist before there was any legislation on the subject, because in the case of the train and engine men the system brotherhood unions had unified into national organizations long before the time of the Transportation Act, and these national organizations dealt with negotiations regionally or nationally.

While organization of employees in other classes did not begin on a large scale until some time after the train and engine brotherhoods were formed, a great deal of progress in such organization had been made prior to Federal control. This was particularly true of the shop crafts on a great many railroads in all parts of the country, and in the Southeast a regional agreement had been made at least as early as 1917. The unionization of other classes of railroad employees was developing, but had made less progress.

It is true that some railroads had been able to exclude rigidly all organizations but the train and engine men, and they presented the condition of recognizing that train and engine men should have a voice in fixing their wages and working conditions, while insisting that no other employees should have such a voice. If a man in train and engine service felt he was unjustly dealt with, he had a contract right to appeal. If any other railroad employee had a similar experience, he had no right at all, but was dependent upon what might be conceded as a matter of grace by the management. Train and engine employees were paid wages which were fixed by agreement with their representatives. Other employees were paid wages which the management fixed. Whether the treatment accorded to train and engine employees as compared with all other employees had the approval of the latter, and how long such condition might have continued to prevail on those railroads which denied the right of organization to all employees except train and engine men, are of course matters of speculation not now of controlling importance.

Federal control changed the situation and dealing with unions of all employees became almost immediately settled in fact as well as in principle.

At the end of Federal control the resulting condition of widespread organization was a factor of tremendous importance. It is now commonly recognized that the railroad employees in general are entitled to a voice in the determination of their wages and working conditions similar to that enjoyed before the War by the train and engine men

on all the railroads and by certain other classes on some of the railroads. For example, the Pennsylvania System announces that its policy and practice are:

"To give all employees an opportunity to have a voice in the management in all matters affecting their wages, working conditions and welfare, and in other matters of mutual concern affecting the welfare of the country and of the public which the company serves."

The frank and cordial recognition of this principle of itself leads to the situation that the management no longer has the freedom in these matters which was generally enjoyed thirty or forty years ago, even as to train and engine men and which as to many other classes on many railroads was enjoyed to a large extent up to the time of Federal control. It is of the highest importance to realize that the present limitation upon freedom of action does not arise from existing legislation, and cannot be removed by any possible legislation, but arises from this new conception, which is likely to continue, respecting the relationship between the managements and all the employees. This is not a matter which can be changed by the adoption of any different legislative policy.

Much is said, however, as to the increase in cost due to the fact that railroad wages and working conditions are standardized to too great an extent, so that wages are unnecessarily the same in widely separated parts of the country. It is important to emphasize that this condition was not created by the Transportation Act and was not created by the Labor Board and will not be eliminated by any legislation that could now be adopted. The only way to eliminate it is by a gradual process of local readjustments between the managements and the employees. Even before Federal control there had come about a considerable degree of standardization of wages of train and engine men in the three great regions of the East, West and Southeast, and there had come about a standardization of the working conditions of the shop men in the Southeast. In the first twelve months of Federal control,

and indeed well before the end of the year 1918, there had come about practically complete standardization of the wages and of many of the most important of the working conditions for practically all the other classes of railroad employees. The standardization of the working conditions grew even more complete during the remainder of Federal control. This condition created a fact with which the Labor Board had to deal and a fact with which the railroad managements and their employees have to deal.

In view of my connection with Federal control of railroads, I am glad at all times to give an account of the conditions leading to and surrounding the developing of standardization of wages and working conditions during that period and I am already on record on that subject in my statement on Federal control, made in January, 1922, to the Senate Committee on Interstate Commerce. That, however, is another story and I do not undertake to go into it here.

No new legislative policy is going to relieve the managements of the complications arising from the necessity for negotiating with their employees as to changes desired by the management in the present status as to wages and working conditions. If the negotiations are successful, the changes can be accomplished under the present law. On the other hand, in the event of failure of negotiations, the public's interest in uninterrupted railroad service, is so vital that it is clear that even if the present labor provisions of the Transportation Act were repealed, the public would insist upon some form of intervention, at least by a fact finding tribunal.

It results, therefore, and it is very important, that vital limitations on the management in respect of labor are going to remain, whatever form the Federal legislation may take. But if these limitations are frankly accepted and the necessary effort is cordially made, I believe the new relationship with labor will bring much more than compensation for the limitations.

The considerations which I have attempted to point

out have brought me to the conclusion that as to rate the provisions of the Transportation Act are perfectly sound and ought to be upheld, and that no proposal to change them ought to be seriously considered unless some substituted provision is made for adequately meeting the cost of railroad operation, and that as to labor the new difficulties which have appeared in the wake of the War are not due to the principles of the Transportation Act, but are due to factors which will remain regardless of any change in the legislation, and which must be dealt with in a spirit of frank recognition of the rights of the employees and of an earnest desire to establish a condition of mutual confidence and interest.

AS TO MATTERS OTHER THAN RATES AND LABOR, RAILROAD MANAGEMENT CONTINUES TO HAVE WIDE INITIATIVE AND NO NEW LEGISLATION IS NEEDED.

The disposition to assume that railroad difficulties are due to something wrong with the provisions of the Transportation Act has led many people to the still further erroneous conclusion that in some way the present state of railroad legislation prevents reasonable freedom of action on the part of railroad management with respect to elements of cost other than the labor cost. Broadly speaking, this is not true and the situation is not substantially different from what it has been for many years.

To begin with, a stupendous cost of a very disquieting character is the burden of railroad taxes. This, however, merely differs in degree and not in kind from what the burden of taxation has always been in the past; and no new principle of public policy will change it. As to taxes, the railroads have the same interest as the public in general to urge economy in government, so as to reduce what has come to be an increasingly alarming burden, and a burden which in my opinion passes itself along until it finally rests principally on the great unorganized mass of producers and consumers.

With respect to operating costs, for a long time the railroads have been subjected to Federal legislation in the matter of safety appliances and to considerable State

legislation controlling details of operation, and much of this State legislation, such as full crew laws, is decidedly irritating. But broadly the managements are free to arrange their operations uncontrolled by legislation. They can formulate and carry out their policies as to train operation, as to terminal methods, as to handling interchanges with connections, their programs as to maintenance, their methods of making purchases, their methods of storing supplies, etc., etc., according to their own judgment. It is true that the Transportation Act has conferred upon the Commission certain broad powers of interference in railroad operation in times of emergency, but generally speaking these do not constitute a serious interference with railroad freedom.

On the whole, as to operating factors other than labor, existing legislative policies cannot be regarded as calling for any fundamental modification; and as I have pointed out, the labor difficulty is principally if not wholly due to factors that would continue despite a fundamental change in legislative policy.

The fact is that there are great opportunities for initiative and efficiency in revising operating methods to meet present conditions; and one of the greatest is to secure greater productiveness of labor through promoting better understanding and cooperation.

RAILROAD CONSOLIDATION AS CONCEIVED BY THE TRANSPORTATION ACT PROMISES MUCH GREATER ECONOMY AND IMPROVED PUBLIC SERVICE.

I believe a further great opportunity for economies in railroad operation and for improvement in the public service rendered by the railroads is to be found in railroad consolidation.

Years ago I was forced to the conclusion that much needless cost and impairment of service and much needless confusion of railroad policies grew out of our having so many different railroads. In practically all my public addresses during Federal control I urged the

necessity for railroad consolidation. The Transportation Act has recognized the desirability of such consolidations and has directed the Interstate Commerce Commission to group the railroads of the country into a few large systems and has authorized the Commission to sanction the consolidation of any two or more of the railroads it may place in the same system. The Commission is now at work on this great problem. I believe this constitutes the beginning of a very important development in railroad service and railroad regulation.

It is interesting, too, to note that the progressive policy of the Transportation Act in this respect is in line with what is happening elsewhere. We see in France a new railroad regime with the very closest coordination of the five or six railroad systems in that country. We see in England the recent consolidation of all the railroads into four great systems.

I feel convinced that the more this matter of consolidation is studied the more the public will appreciate the great advantage in service and economy in cost which can eventually be expected from extensive consolidation as conceived by the Transportation Act.

WE MUST FACE THE VITAL DISTINCTION BETWEEN RAILROADS AND PRIVATE ENTERPRISES, REALIZE THE PUBLIC AND THE RAILROAD DIFFICULTIES ARE NOT DUE TO THE TRANSPORTATION ACT, AND GIVE THAT ACT A FAIR TRIAL UNDER NORMAL CONDITIONS; AND REMEMBER THAT BROADLY THE CHOICE IS BETWEEN THE PRINCIPLES OF THAT ACT AND GOVERNMENT SUBSIDY OR GOVERNMENT OPERATION.

At times we hear the complaint that the trouble with the railroad situation is that the railroad industry is not upon a business basis like other industrial enterprises, and on that account it cannot possibly be successful. When we come to analyze the facts we find that the principal thing that distinguishes the railroads in this country from the other great industrial enterprises of the country

is that these other enterprises are able very largely to fix their prices, and to make sure that those prices are ample to cover their costs whatever their costs may be, and if in particular instances the prices they are able to get do not satisfactorily cover their expenses, they can simply discontinue operations at the particular plants which are unfavorably affected. Of course we can accept it that in these respects the railroads will never be like other industrial enterprises. The public is never going to relinquish its power to pass upon the rates which the railroads will charge and the railroads will never be permitted to discontinue operations simply because they may be temporarily unprofitable. I think, therefore, it is a mere confusion of the issue to lament because railroads are not like other business enterprises. We must accept the fact that they are different in the vital respects I have mentioned, and must face the situation on that basis.

In making this study of the bearing of the broad principles of the Transportation Act upon the present railroad situation, it is important to bear in mind that the public and the railroad managements have been subjected to such a great variety of difficult problems that it is not surprising that a considerable degree of discouragement and confusion of thought should arise. But this very state of discouragement and confusion makes it imperative that we clarify the situation, take better stock of the opportunities and stop imagining that no opportunities remain. In the present year 1923 with its favorable promise of normal railroad operations, we should study the functioning of the Transportation Act on its merits, free from prejudice based on disappointments which were due not to that act but to war and post war difficulties.

As to rates, it must be accepted that they will continue to be fixed by some form of public authority, and that they must be adequate to cover cost, including just return on capital, unless Government ownership or Government subsidy is to be substituted. As to labor, it must be realized that the problems do not arise principally out

of legislative policy, but rather out of recognizing the right of the employees to a voice in fixing their wages and working conditions, and out of the peculiar difficulties of readjustment of existing wages and working conditions, and that these matters will still remain even if new legislation can be adopted, and that public intervention in some form in the event of failure of negotiations is inescapable. As to other costs, it must be realized that the degree of legislative interference at the present time is comparatively small, and that the great bulk of operating discretion remains as heretofore, except so far as affected by new developments of working conditions of the employees. With a due appreciation of these things, the situation ought to be relieved of the false idea that the troubles are traceable to vicious legislative policies. It should be recognized that the Transportation Act is a great improvement on any scheme of regulation heretofore adopted, and that it would be wholly unjustifiable to fail to give that Act a most sincere and sympathetic trial.

In conclusion, I wish to outline what I believe to be the sound policy of railroad management and the sound policy of the public with reference to the railroad problem.

Addressing railroad management, I would say that above everything else the situation should be relieved of the benumbing influence of the doctrine that railroad managers no longer have any initiative or opportunity. It requires only the continued preaching of this doctrine to make private operation an utter failure. The fact is that for every opportunity lost through the developments of the War and post-War period, a new opportunity has come into existence. Both in the relations with the public and in the relations with the employees opportunity arises for developing new and successful methods of contact and for creating a growing appreciation of community of interest, and a growing sentiment of support. As to railroad operations in general, there is a large field for the development of new initiative and ingenuity in the

adaptation of operations to the changed conditions. During the era when the railroads were built and their present operating policies were shaped, the great railroad men were those who found ways to overcome the numerous obstacles, and not those who dwelt upon the insuperable character of the obstacles. In the present day success calls for a similar spirit applied to new sorts of difficulties.

In fact, many railroad executives and managers seem to be going forward in a courageous and intelligent grappling with the new problems which have arisen. It would be disastrous if this spirit should be broken by continued preaching of the false ideas that we hear from time to time that the principal difficulties are due to a wrong legislative policy, and that a fundamentally different legislative policy is obtainable and would remove these difficulties, and that meanwhile opportunity for substantial achievements does not exist. Railroad managements should not be encouraged to look backwards to the elements of freedom they have lost, nor should they be misled by the fallacious doctrine that that sort of freedom can be restored by legislation. All the emphasis should be on their duties and opportunities under existing conditions and on the necessity for new spirit and new methods to cope with the present and the future.

The worst thing that could be done to railroad management would be to invoke a sort of reverse Coué-ism and constantly say: "From day to day in every way railroad management is becoming weaker and weaker."

Addressing the public, I would say that the thing of greatest importance is to avoid the fatal mistake of constant shifts of policy in an effort to escape the facts. No policy could have flourished in the abnormal years through which we have just passed. No policy can ever succeed unless it is given a fair trial. The worst possible policy is a constant shift in policy on account of temporary discouragements. The Transportation Act represented a gradual evolution of the thought of the country that there ought to be an

adequate effort to make a success of private operation of the railroads. That Act represents the lines upon which that effort must be carried forward. It should be adhered to unless the definite conclusion is reached that a Government subsidy or Government operation is to be adopted as the country's public policy. Above everything else, it should be remembered all the time that in one form or another the cost of railroad service must be paid for and that the failure to pay for it out of rates will result in the long run in its being paid for out of taxation because the public must have the railroad service and cannot permanently accept the impaired service which would be the outgrowth of inadequate rates in the absence of a Government subsidy or Government operation.